



County of Los Angeles
CHIEF ADMINISTRATIVE OFFICE

713 KENNETH HAHN HALL OF ADMINISTRATION • LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://cao.co.la.ca.us>

DAVID E. JANSSEN
Chief Administrative Officer

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December 9, 2005

To: Mayor Michael D. Antonovich
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From: David E. Janssen
Chief Administrative Officer

THE UCLA ANDERSON ECONOMIC FORECAST

On December 7, 2005, the UCLA Anderson School of Business released its Fourth Quarter Report for 2005 indicating that both the United States and the California economies will continue to perform well into 2006 though not as well as in 2005. The forecast identified a number of overhanging factors that could have a negative impact upon the economy, such as: 1) The overheated housing market and associated construction employment; 2) Increasing interest rates; and 3) The possibility of significant changes in liquidity provided by foreign governments.

The health of the housing market is a critical indicator in the forecast. While there are indications that the market is softening, the data is not conclusive and it may rebound as it did in 2004. There are regional differences in the State's market with the San Francisco Bay area showing a slight decline in housing prices. The San Diego market is slowing down but the rest of the State looks good. Since the increase in housing prices is considered unsustainable at the current rate, the forecast looks to mid-2006 as a possible critical point regarding the health of the housing market.

The forecast also points out that the outlook for the job market in California is positive but not great. Since September 2005, the rate of increase has been less than one percent. Of interest to the County is the loss of jobs in the information category which includes employment in the motion picture and recording industries. In the past three months, the State has lost approximately 18,000 jobs in this category, nearly 15 percent.

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Los Angeles County lost about 15,000 jobs with most of these losses coming from the motion picture and sound recording industries. This represents a reversal of the 24,000 jobs added in the area at the beginning of the year. On the whole, the Los Angeles area should expect an 0.8 percent growth rate in jobs in 2005. This is less than the Statewide estimate of job growth of 1.4 percent.

Overall, the Anderson Forecast predicts a slowing down of the economy to a more sustainable growth rate, as a gradual cooling off of the economy seems to be more likely than a sharp downturn. As the housing market slows, a commensurate decrease in the number of construction jobs is anticipated. However, the forecast indicates that manufacturing jobs are not at significant risk. This is an important component of the analysis, as the loss of jobs in two major sectors ordinarily would indicate that a larger economic contraction is likely.

The forecast cautions that the relatively strong State revenues from personal income and sales taxes do not in itself resolve the \$4 billion structural shortfall in the State's Budget but merely allows the State to delay a solution by another year.

We will continue to keep you advised.

DEJ:GK
MAL:SK:kg

c: Executive Officer, Board of Supervisors
 County Counsel
 All Department Heads
 Legislative Strategist